

## Innovation and New Business Models for the Regional Development: Travel and Transportation

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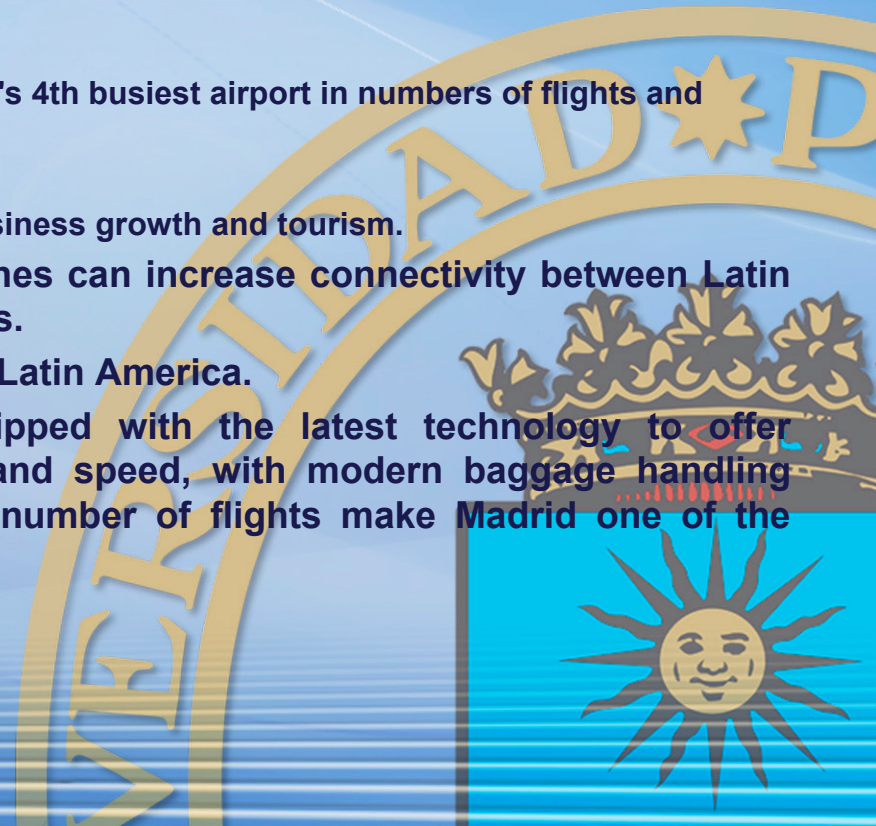
## What this talk is going to be about?

- ❖ **Regional development could present different strategies:**
  - ❖ Relocation of industry clusters
  - ❖ Foreign Direct Investment attraction
  - ❖ Innovation based on new business models
- ❖ **The Regional Government of Madrid (3rd largest GDP in the EU) selected strategic industries to compete & innovate:**
  - ❖ Travel & Transportation
  - ❖ Aerospace
  - ❖ Nanotech. & Biotech.
  - ❖ ICTs.
  - ❖ Energy



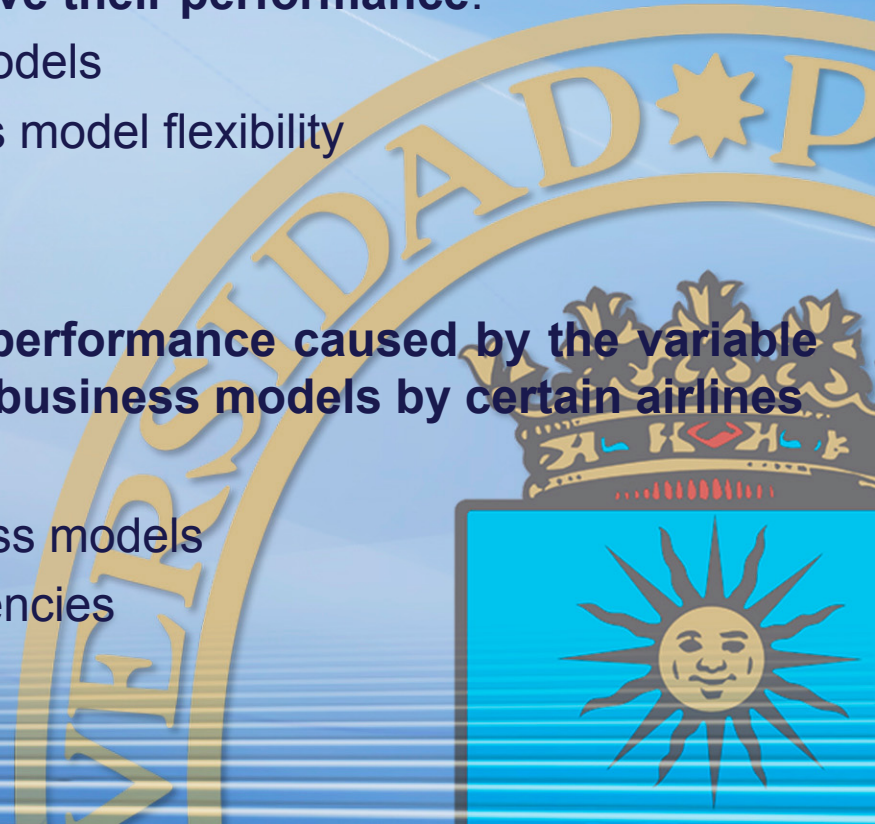
## ❖ Madrid-Barajas Airport:

- ❖ Top company in Madrid
  - ❖ 200.000 employees
  - ❖ 12% Madrid GDP
  - ❖ 2010: 50 Million passengers
  - ❖ 2009: World's 11th busiest airport & Europe's 4th busiest airport in numbers of flights and passengers
  - ❖ Key element of tourist industry
  - ❖ Driving regional economy and fostering business growth and tourism.
- ❖ Consolidated as a Hub airport where airlines can increase connectivity between Latin American, domestic and European markets.
- ❖ Making a true bridge between Europe and Latin America.
- ❖ Innovative and attractive facilities, equipped with the latest technology to offer passengers greater mobility, efficiency and speed, with modern baggage handling systems, shopping areas and a greater number of flights make Madrid one of the airport capitals of the 21st century.



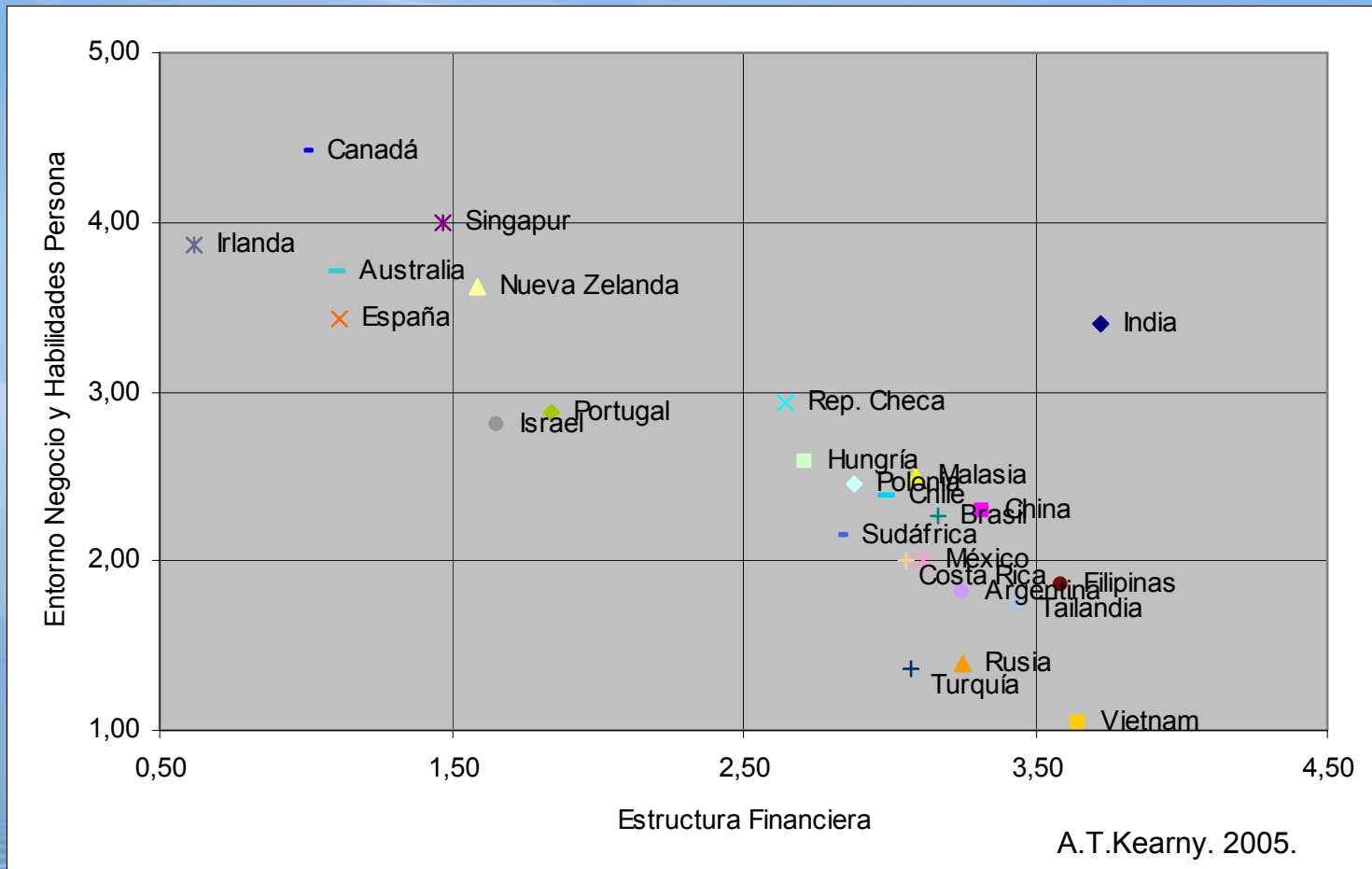
## What this talk is going to be about?

- ❖ **The normative question of how airlines can and should continuously adapt their business models to improve their performance.**
  - The construct of flexibility in business models
  - The role of core competence in business model flexibility
  - The notion of flexibility in airline industry
- ❖ **The improvements and reduction in performance caused by the variable adoption of flexible practices in their business models by certain airlines**
  - The model for a flexible business model
  - The core competencies in airline business models
  - Need to identify required airline competencies





## Competitive position



## Airline business models

Few concepts in business today are as widely discussed and as seldom systematically studied as business models, with very few large-scale systematic empirical studies.

**A business model is the underlying logic of a company by which it creates value.**

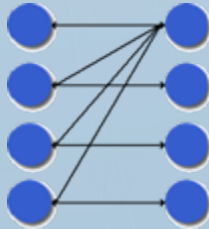
A business model provides connections between a company's potential and the realization of economic value.

Although industry transformations generally emanate from technological changes, recent examples suggest they may also be due to the introduction of new business models and nowhere is it more relevant than in the airline industry.



## Airline business models

In the past, different types of airline business models could be clearly separated from each other.



However, this has changed in recent years partly due to the concentration process and partly due to the reaction caused by competitive pressure.

It's possible to identify options for change and improvement by analyzing business models.



## **The construct of flexibility in business models**

In times of rapid change, uncertainty and turbulence, the relationships between the business organization and its environment changes.

A functionalist perspective emphasizes the need for the organization to be aware and responsive to change in the environment in order to survive.

The functional logic that drives the organization should be flexible, timely, readily accessible, accurate, and compatible with other systems in both cross-functional and cross organizational capacities.

As uncertainty increases, companies are finding themselves facing a high ratio of uncertainty to knowledge, as decisions are based on old assumptions leading to unfortunate outcomes.

Clearly, it is possible to infer that the company operating a traditional business model (for example a full service carrier like Alitalia) struggles to remain competitive.



# **The role of core competence in business model flexibility**

Core competence is the unique property of an organization or company. Core competency of an airline is largely dependent upon its industrial, social and cultural background.

Airlines fail to reinvent themselves not necessarily because they are bad at fixing what's broken, but because they wait much too long before repairing the deteriorating bulwarks of the company when their core markets begin to stagnate and they are reduced to managing to the limits of their existing business operations instead of identifying new business opportunities.

## **The role of core competence in business model flexibility**

Flexibility is the ability and capacity to reposition resources and functions of the organization in a manner consistent with the evolving strategy of management as they respond, proactively or reactively, to change in the environment.

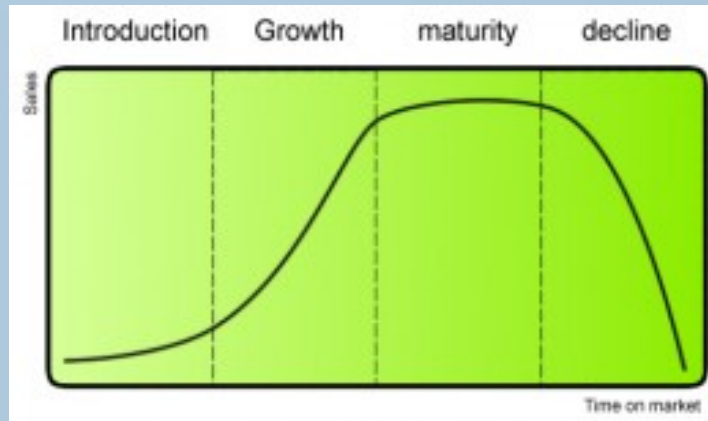
Flexibility requires the availability of resources and the effective synchronization of these limited variables to benefit from a new opportunity. This requisite translates in to the need for a company to have the required competencies.

The competencies that have been acquired have to be assimilated and strengthened. Strengthening core competencies strategically positions airlines by the enhanced flexibility so that opportunities can be acted on as the industry evolves. This will also explain the difference in quality among airlines that follow the same business model.

## The notion of flexibility in airline industry

**Airlines have faced cyclical loss and profits throughout their history.**

Most airline business models use a linear approach having a typology which shows the model at a point in time. The profitability of an operating model is constantly at risk due to technology innovations, regulatory changes, customer preferences, and competition.



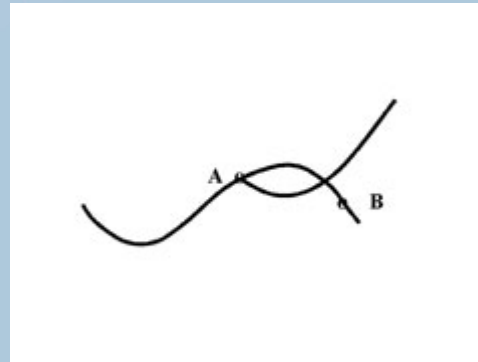
Many airlines have come out of the crisis's faced by them by adopting flexible business practices. But these business practices once successful will lead the company in to complacency guided by profits in the short and medium term and thus developing a myopic situation as to the needs for further flexibility in the future.



## The notion of flexibility in airline industry

In most models, the business performance decrease drastically and may lead to failure when uncertainty arises from external competitor, environmental threats, internal threats and conflicts etc.

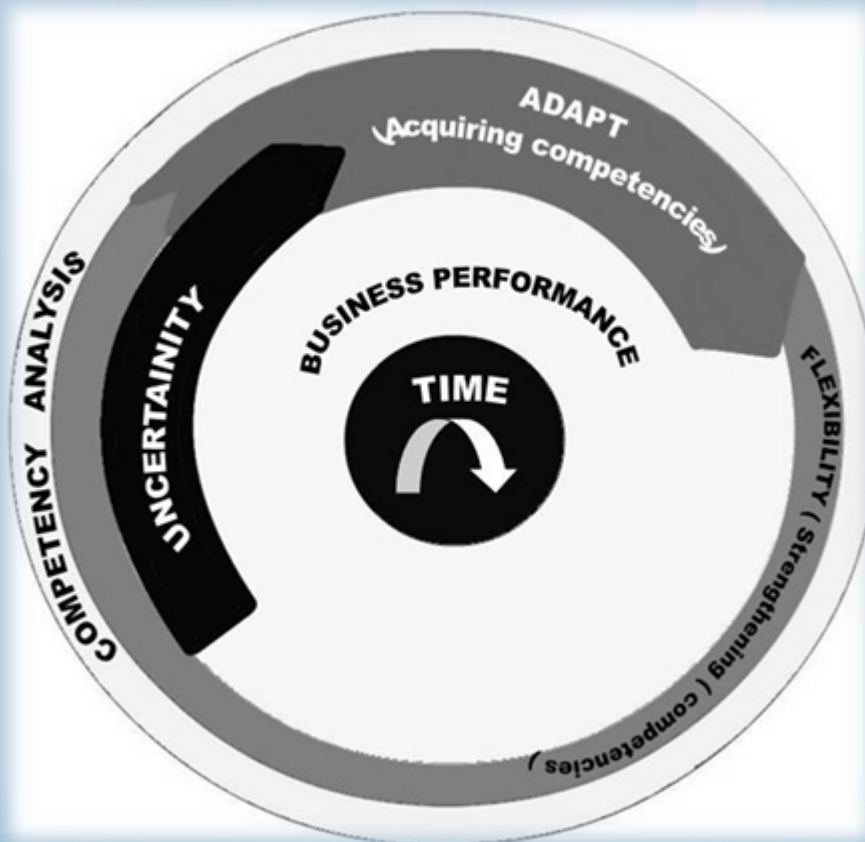
There should be inherent qualities in the business model that makes it respond to uncertainty and diminishing business performance by adapting to the factors that contribute to it. This means acquiring or changing the competencies that made the model inefficient.



This adaptation can be sustainable if the model is flexible enough to continuously assimilate and strengthen the acquired competencies.

## The notion of flexibility in airline industry

A model is developed which can address these problems. Figure shows how a business model will function in an uncertain environment with the least reduction in business performance over time.



Constant analysis of the airline's core competencies

Introduction of an inherent layer of flexibility and adaptability in the business model

Uncertainty phase is overcome by constant flexible business practices

Smooth adaptation phase by the acquiring of required competencies that can overcome the uncertainty in the business model

Business performance increases as the acquired competencies are strengthened and assimilated in to the business model due to the ingrained flexibility

*The flexible business model*

# The core competencies in airline business models

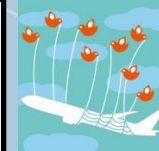
An analysis is done to identify some of the competencies that airlines have tried to acquire, that had an impact on their business performance, and thus added flexibility in evolving their business model.



**Brand Maintenance**  
Kingfisher airlines on Twitter



**Service augmentation**  
British Airways introduced speech recognition service in flight and confirmation services



**First mover**  
South African airlines consider first mover advantage as their primary core competence



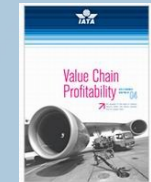
**Brand restructuring**  
Turkish Airlines has doubled their total revenue in the last four years



**Sales augmentation**  
American airlines has new "Direct Connect" platform



**Consolidation**  
Airlines developed strategic alliances like Sky team and One world



**Value chain**  
Virtual value chain of JAL



**Incremental innovation**  
Singapore Airlines has a Product Innovation Department



**Product diversification**  
LAN airlines with a diversified product offering with an equally diversified geographic base



**Service orientation**  
"Service Performance Index" of SIA



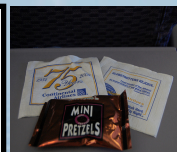
**Disruptive innovation**  
Ryanair is now more utilized than British Airways



**Globalization**  
Mergers like those between Delta Airline and Northwest Airlines



**New market penetration**  
Jet Airways, Kingfisher, Airasia, Ryanair have all started operations to a new accessible international destination.

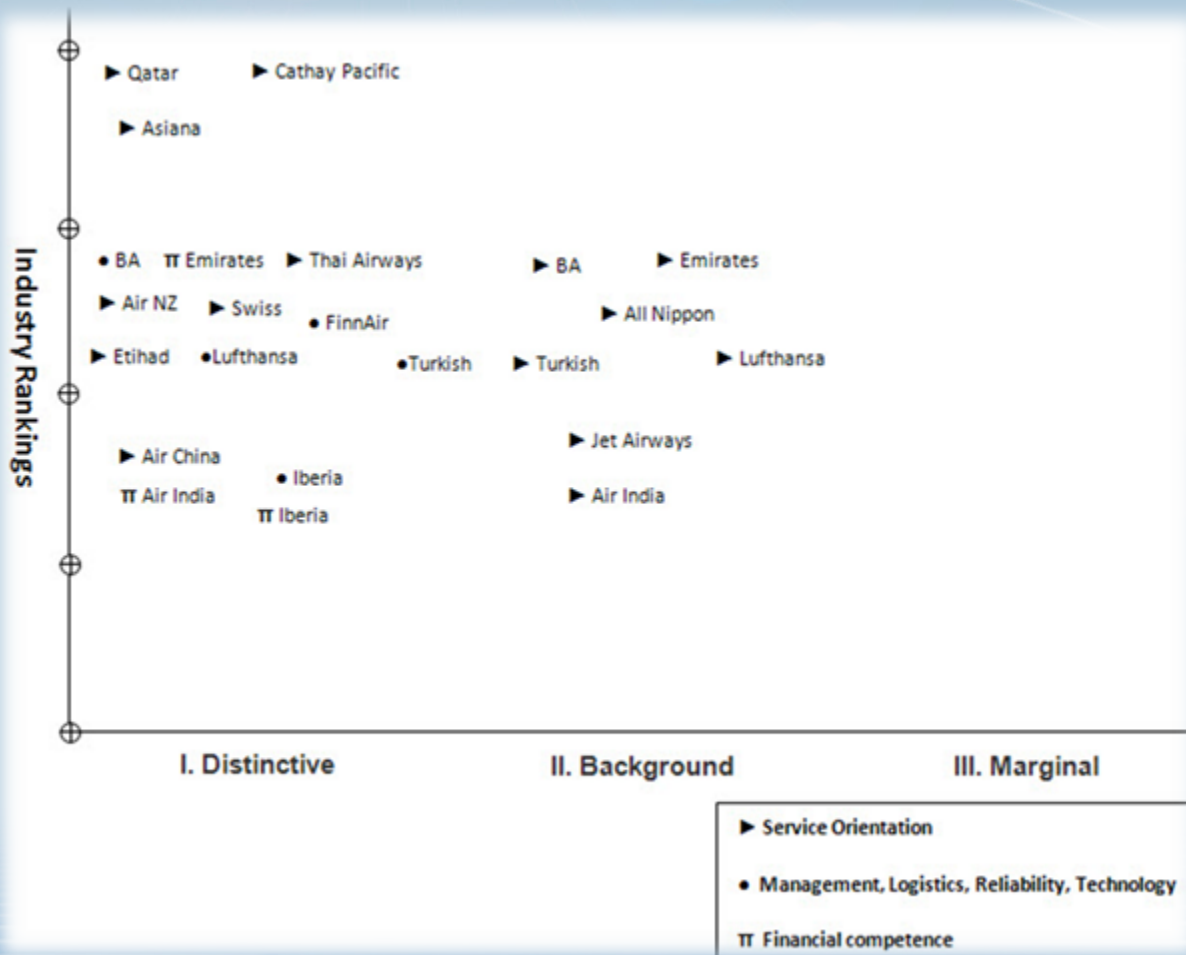


**Commoditization**  
Price has moved from a major consideration to the only consideration for passengers



## Need to identify required airline competencies

The analysis of the business model flexibility of 17 Airlines from Asia, Europe and Oceania is done with core competence as the indicator.



➤ Airlines which consider service orientation to be their primary distinctive competency consistently rank higher in industry airline rankings based on product and services.

➤ Asian airlines predominantly consider service as their distinctive core competence while most European airlines consider service to be their background core competence.

➤ The airlines that consider their managerial skills, logistical capabilities, reliability in operations, adopting latest technologies etc do not rank high or often come in average score categories in industry rankings.

➤ The group of airlines like Air India, Iberia (particularly state owned or recently privatized) that consider financial management and financial competence to be their distinctive competency are ranked lower.

## **Need to identify required airline competencies**

One of the patterns that emerge from the analysis is the service and product quality difference between Asian and European airlines and the constraints placed by flexible models and proper core competency strategies. Asian airlines predominantly consider service as their distinctive core competence while European airlines consider technology and management skills as distinctive core competence.

To be flexible based on service orientation can be the way out for airlines which are facing stagnation due to limits of their business model as well as external factors.

Examples can be found in the airline industry of such trends taking place particularly among the low cost airlines which are facing diminishing load factors and saturated markets.

Easyjet which is primarily caters to the budget traveler is trying to transform its low cost business model by positioning itself to the business traveler by the introduction of practices like passenger loyalty schemes, priority boarding, flights to primary airports, flexible tickets whose date can be changed as often as desired from one week before until three weeks after the original date of travel etc.

These kind of flexible practices based on service orientation are increasingly becoming evident in the airline industry.

## Conclusion

- The main aim of this talk had been to discuss the core competence strategies of airlines and how it defines their business model thereby affecting their business performance.
- An attempt has been made to develop a cyclic model to show how an airline can increase its business performance in an uncertain environment by bringing in flexibility based on competencies to its business model.
- The findings show that it is possible for airlines to achieve sustained competitive advantage in highly uncertain environments by having a inherently flexible business model.
- It is seen from the analysis of airlines that many of them do not understand the concept of choosing the right competencies to operate in the given environments.
- A correct understanding of the concept of business models, employing the right core competencies, organizing them effectively and building the business model around the competencies that are constantly gained and assimilated can result in enhanced business performance.
- Flexibility is ingrained in airlines that are service oriented and this is obtained by an efficient core competence strategy.





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## Questions?

